

Industry Overview

Sugarcreek/Travelport Overview

August 5, 1997

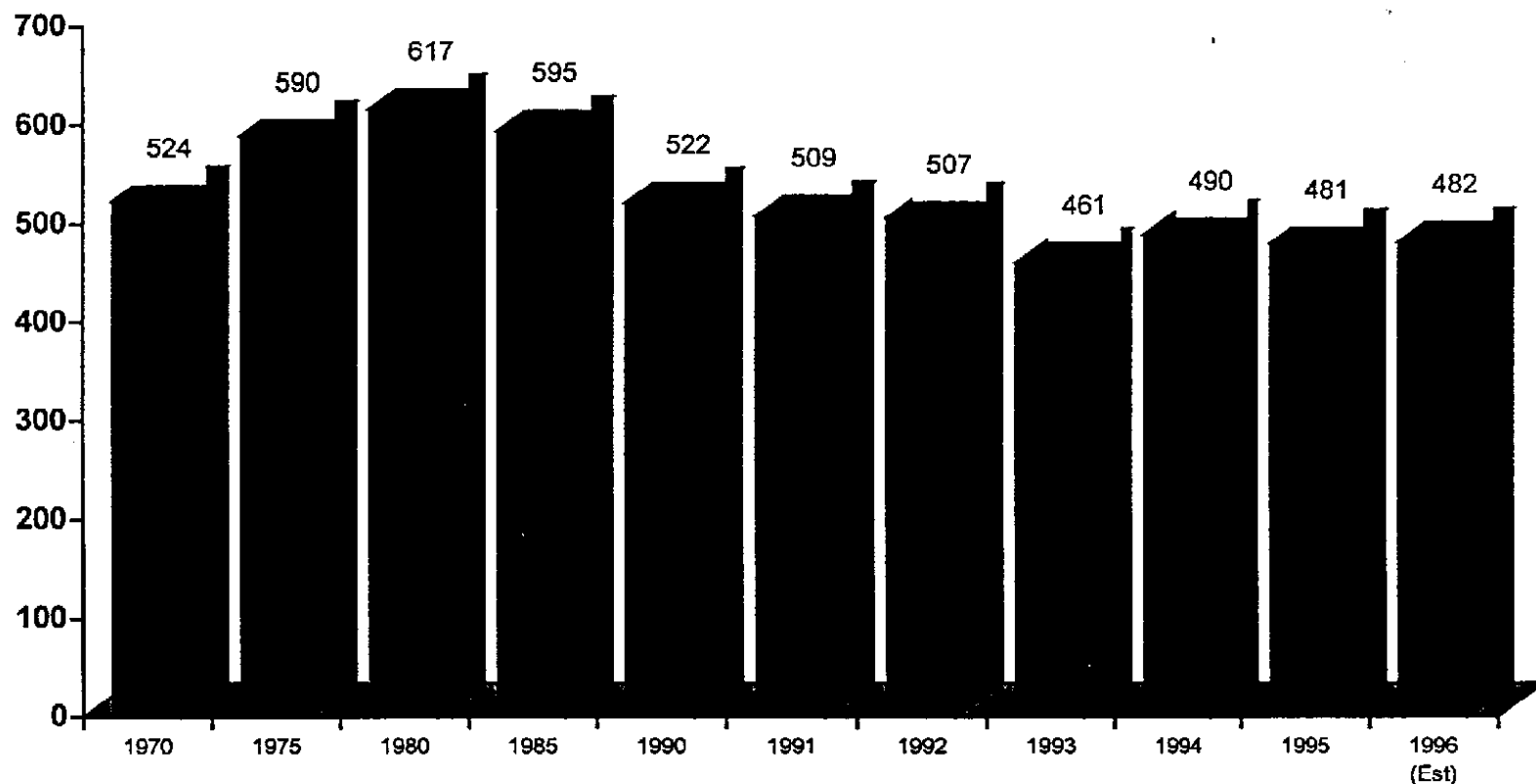
R.J. REYNOLDS TOBACCO CO.

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Industry Overview

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Total U.S. *Cigarette Industry Volume* *Billions of Cigarettes*

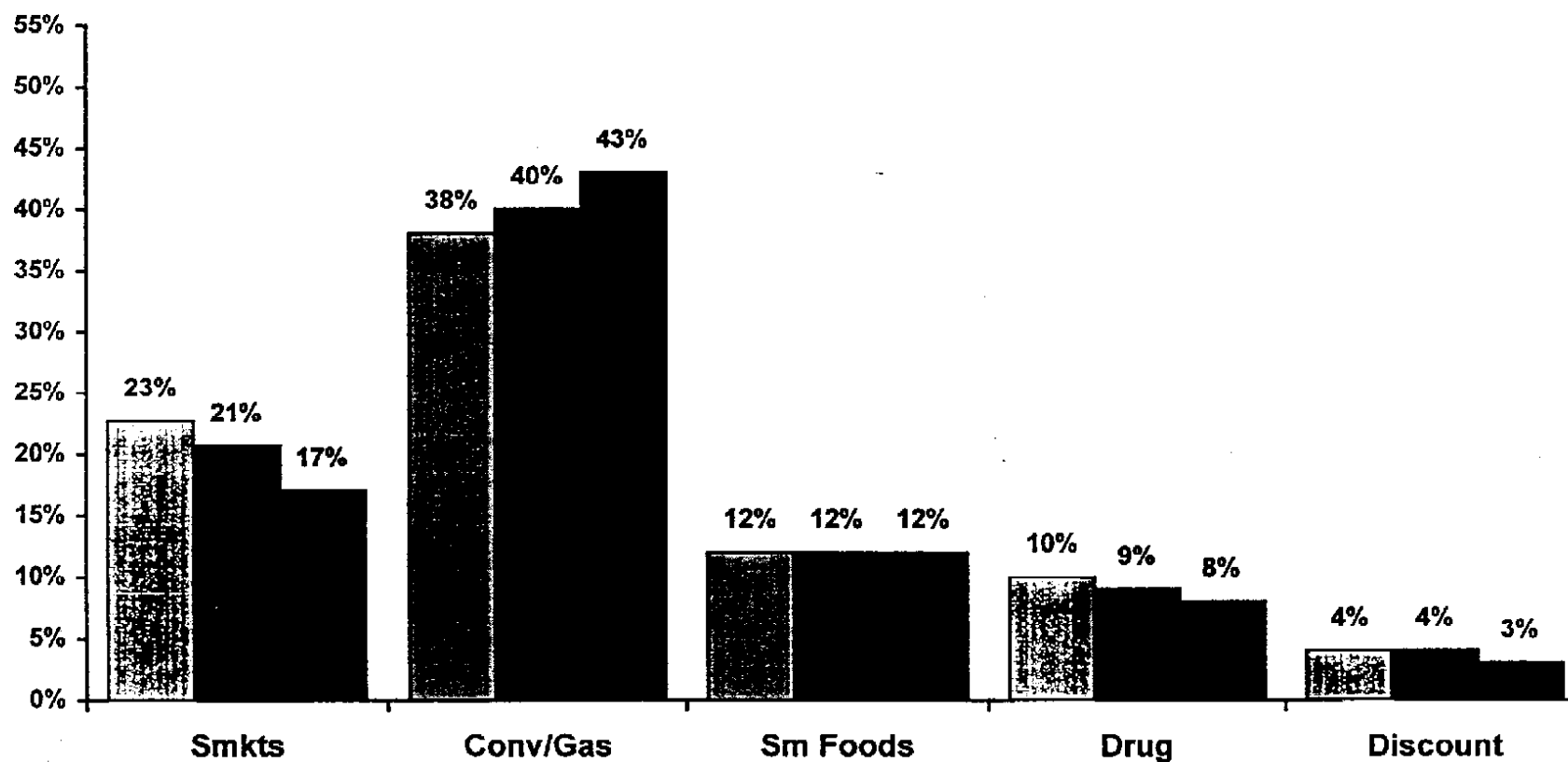


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Northeast U.S.

Percent Cigarette Volume Trends By Retail Segment

■ 1994 ■ 1995 ■ 1996 (Est)



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Convenience / Gas Percent of Sales *

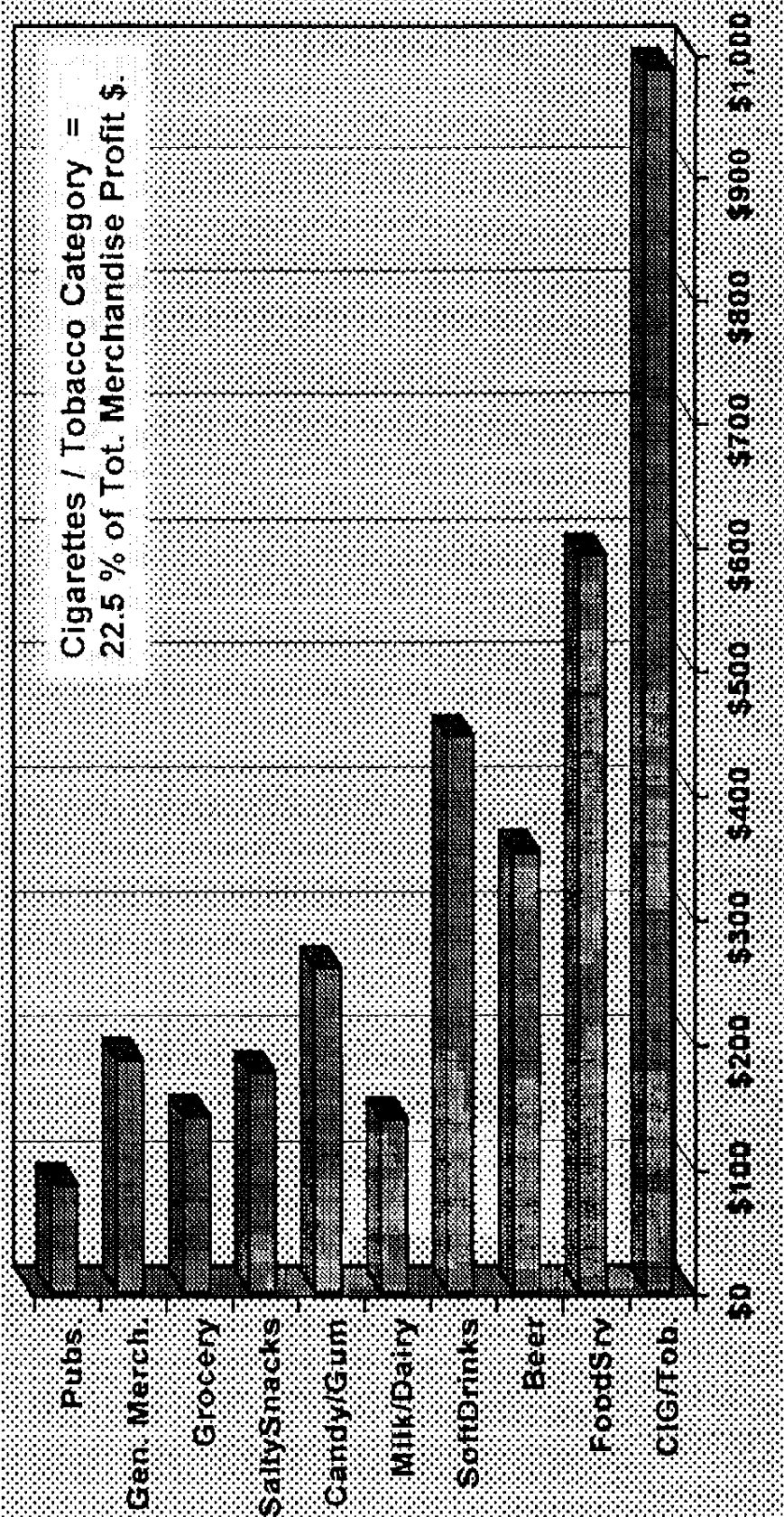
Conv./Gas - NACS Averages / Top 10 Product Categories

<u>Rank</u>		<u>% Sales</u>
1	Cigarettes / Tobacco	27.4%
2	Beer / Wine / Liquor	13.0%
3	Canned / Bottled Beverages	12.6%
4	FoodService / Deli	9.0%
5	Fountain / Slush / Coffee	5.4%
6	Candy / Gum	4.2%
7	Milk / Dairy	4.2%
8	Grocery / Frozen Foods	4.0%
9	Bread / Cakes / Cookies	3.7%
10	Salty Snacks	3.6%

* Percent of Inside Merchandise Sales - Source : NACS '96 Fact Book

Total U.S. Convenience/Gas - Merchandise Profits

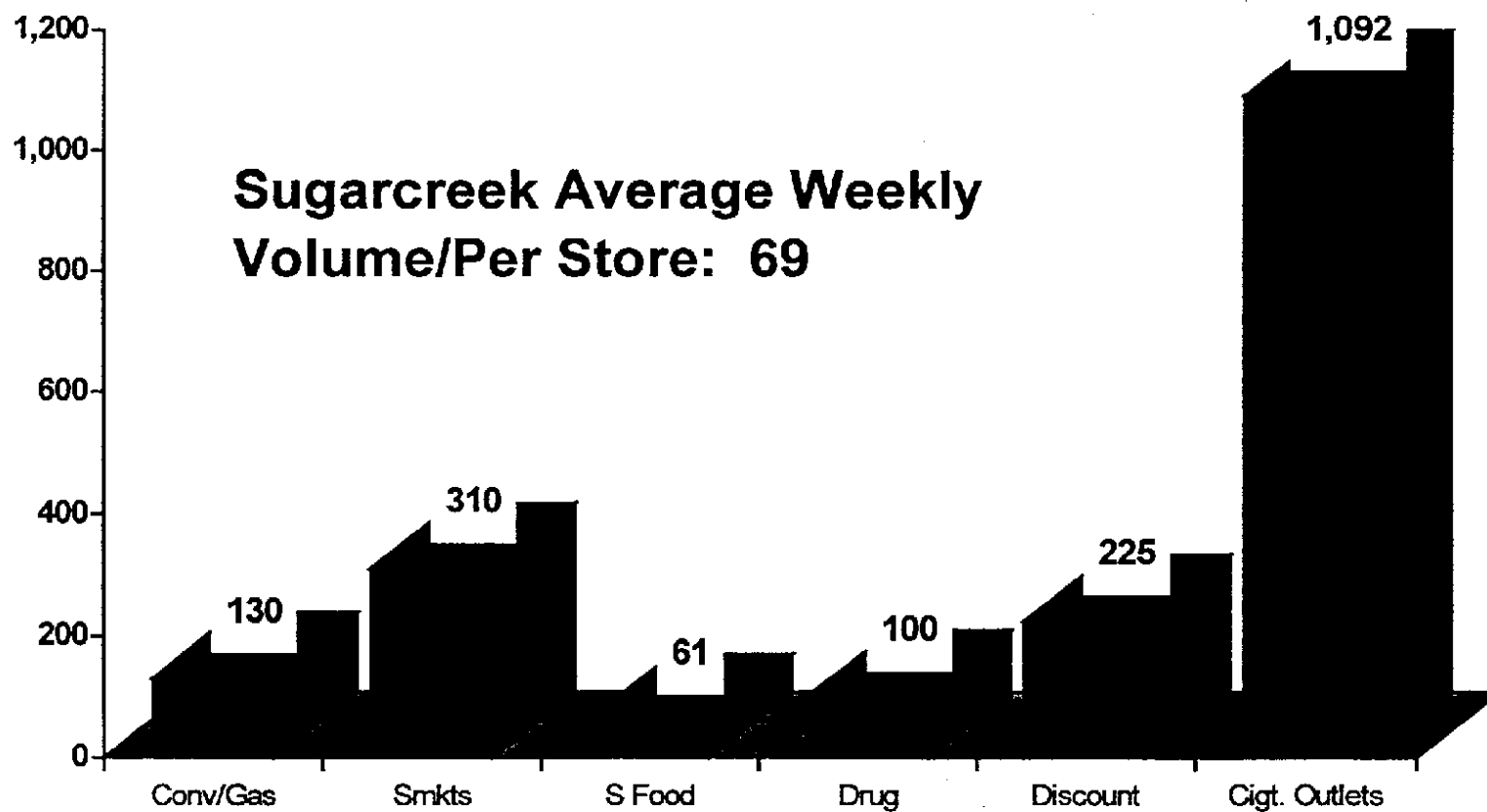
Merchandise Profits - By Major Category
Average Weekly Profit \$ per Store



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Northeast U.S. Retail Segments

Average Weekly Carton Volume / Per Store



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Government Issues

FDA REGULATIONS - TOPLINE :

As Of May 7, 1997

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Status of FDA Regulations of Tobacco Products After April 25, 1997 Court Ruling on Summary Judgment

- I. COURT RULED THAT FDA REGULATIONS WHICH WENT INTO EFFECT ON FEBRUARY 28, 1997 REMAIN IN EFFECT PENDING APPEAL.

* Regulations which went into effect February 28, 1997, are those which:

- * Prohibit sale of tobacco products to individuals under the age of 18;
- * Require retailers to verify a purchaser's age by photographic identification.

Status of FDA Regulations of Tobacco Products After April 25, 1997 Court Ruling on Summary Judgment (continued)

II. COURT RULED THAT FDA DOES NOT HAVE THE AUTHORITY TO REGULATE TOBACCO ADVERTISING AND PROMOTION.

* Regulations which restrict promotion and advertising defined as those which:

- Limit advertising to black & white text-only format;
- Restrict trade or brand name of tobacco products;
- Prohibit sale or distribution of brand identified promotional non-tobacco items such as hats and tee-shirts;
- Prohibit use of brand name of tobacco products to sponsor entries, teams, sporting and other events.

Status of FDA Regulations of Tobacco Products After April 25, 1997 Court Ruling on Summary Judgment (continued)

III. COURT LET STAND FDA ACCESS RESTRICTION REGULATIONS AND PACKAGE LABEL REGULATIONS, BUT RULED THAT THE FDA CANNOT IMPLEMENT ANY REGULATIONS SCHEDULED TO GO INTO EFFECT ON AUGUST 28, 1997 (INCLUDING ACCESS RESTRICTION AND PACKAGE LABEL REGULATIONS) PENDING FURTHER ORDERS BY THE COURT.

* Access restrictions (scheduled to go into effect on August 28, 1997) defined as those which:

- Prohibit the sale of tobacco products through vending machines and self service displays except in facilities where individuals under the age of 18 are not permitted;
- Prohibit distribution of free samples; and
- Prohibit the sale of cigarette packages containing fewer than 20 cigarettes.

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Status of FDA Regulations of Tobacco Products After April 25, 1997 Court Ruling on Summary Judgment (continued)

* Package label regulations defined as those regulations which require tobacco product packages to bear the established name of the product and statement of intended use.

IV. CIGARETTE MANUFACTURERS AND THE FDA HAVE FILED PETITIONS TO APPEAL. THE APPEALS PROCESS COULD TAKE YEARS AND ULTIMATELY MAY RESULT IN A TRIAL ON THE ISSUE OF WHETHER THE FDA HAS JURISDICTION OVER CIGARETTES AS CUSTOMARILY MARKETED.

AS FURTHER DEVELOPMENTS OCCUR WE WILL ADVISE YOU.

Proposed Settlement

⇒Congress and the President will evaluate the agreement and may propose changes.

⇒Presidential/Congressional approval pending.

⇒If approved:

The agreement sets forth the following timelines for implementation:

Display Compliance (NSS) - 9 months

Retail Signage Compliance - 5 months

Vending Machine Elimination - 12 months

We see no changes until late 1998

August 5, 1997

To All Store Managers,

Please read the attached notice to clarify confusion associated with the changing regulatory environment associated with selling tobacco products.

Until further notice, all cigarette promotions, displays and advertising is business as usual until Congress votes and the President signs the tobacco settlement agreement. After which (assuming Congress does not change), retailers will have five months to change retail signage and nine months to be in compliance with displays, promotions, etc. According to expert opinion (NOT OFFICIAL), expected changes will not take place until the end of 1998. The changes will be announced when details are finalized.

URGENT REQUEST: Conflicting information has been sent directly to sites from the FDA and various authorities (especially in PA). These documents should not be acted upon without corporate instructions. Please send a copy to your merchandiser immediately for corporate review.

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Category Advisor Report :

Change within the Tobacco Category

RJ Reynolds
Tobacco Company

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THE CIGARETTE / TOBACCO STORE

Consolidation Due to Legislation ?

- ❑ Today, cigarettes are part of the retail mix in over 350,000 retail outlets throughout the U.S.
- ❑ Trade channels such as Supermarkets, Mass Merchandisers and Drug Stores, in many instances, have de-emphasized the category in recent years.
- ❑ Many of these outlets only carry the category "as a convenience" to their cigarette buying customers.
- ❑ With insignificant category profitability, for some, discontinuing sales is a probability if legislative mandates require a special effort by the retailer.

THE CIGARETTE / TOBACCO STORE

The Trend

- ❑ In 1996, over 2000 new Cigarette Tobacco Stores have opened across the country.
- ❑ With less than 2% of the outlets, the CTS retails 12% of all cigarettes sold.
- ❑ Although the overall makeup of today's CTS is dominated by independent and small chain operators, 1997 could be the year that the major chain players enter the category in a big way.
- ❑ The CTS has proven to be a profitable concept and will experience considerable growth in the next several years in light of the legislative climate towards the selling of cigarettes.

Summary

- The U.S. cigarette industry is very well developed and will remain a viable industry in the future. Cigarette sales declines have ceased, and consumption is on a relatively flat trend.
- The Conv./Gas segment is the largest industry trade class, however cigarette outlets are and will remain a fast-growing retail trade class in the years ahead due to:
 - Increased number of locations and smoker friendly environments.
 - Competitive pricing and variety of product promotion activity.
 - Increasing interest in single pack sales business.
- Successful Conv./Gas store operators will be those who listen to consumers, and deliver convenience, competitive pricing, product selection and promotion.
- Continued strong support of the entire cigarette category will be critical in the future - Category Management can optimize profits.

Sugarcreek
Overview/Opportunities

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Sugarcreek Profitability

■ Cigarette Sales	\$9,493,000.00
■ Total Gross Profit	\$2,958,000.00
■ Industry Display Allowances	\$ 307,000.00
■ Total Net Profit	\$3,265,000.00

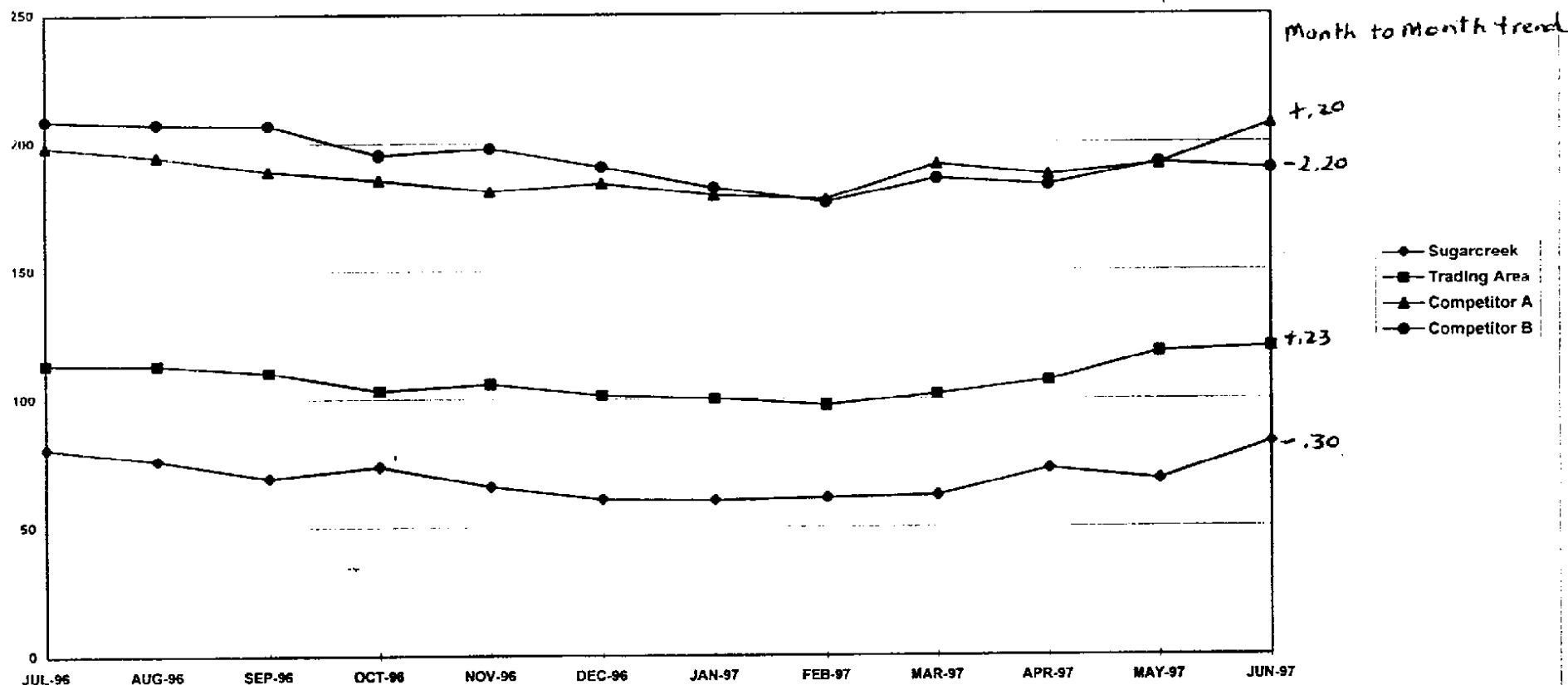
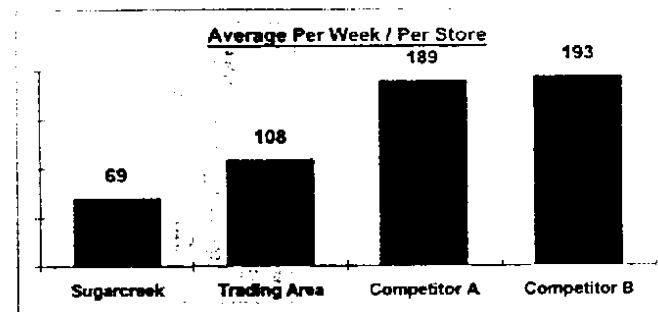
For period June, 1996 - June, 1997

Customer versus Competition - Volume and Share Analysis

Sugarcreek

Conv/Gas National Average 130

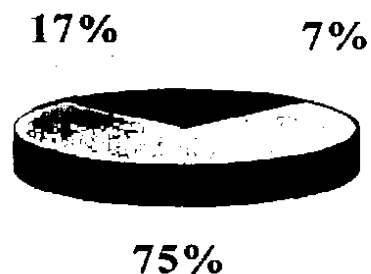
Industry Cartons / Per Week / Per Store



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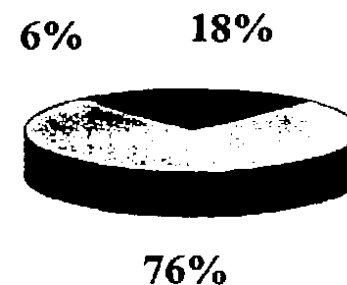
Price Tier Share of Market

Northeast U. S. Convenience & Gas



■ Full Price
■ Branded Savings
■ Private Label

Sugarcreek



■ Full Price ■ Branded Savings
■ Private Label

Retail Pricing

	AVERAGE TRADING AREA PRICING	SUGARCREEK
FULL PRICE	\$2.31 2.41	\$2.64
BRANDED SAVINGS	\$1.97	\$2.28
PRIVATE LABEL	\$1.79	\$2.02

Current Price test addressing the pricing issue

Next Steps/Recommendations:

Measure results

Price Communication - Consumer awareness

*Travelport Business
Opportunities*

W E B D

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TRAVELPORT SURVEY RESULTS

LOCATION	INDUSTRY VOLUME (CTNS PER WEEK)	COUNTER DISPLAYS	PROMOTING	OPPORTUNITY
ALLENTOWN, PA	70	NO	NO	YES
PAULSBORO, NJ	100	NO	NO	YES
BINGHAMTON, NY	70	RJR F.P./SAV BAT F.P. LOR F.P.	YES	YES
BLOOMSBURG, PA	162	NO	YES	YES
FULTONVILLE, NY	50	RJR F.P. LOR F.P. CHECKER'S DISPLAY	NO	YES
MONTGOMERY, NY	102	NO	NO	YES
BELMONT, NY	40	LOR F.P./SAV	NO	YES

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R.J. REYNOLDS TOBACCO CO.

LOCATION	INDUSTRY VOLUME (CTNS PER WEEK)	COUNTER DISPLAYS	PROMOTING	OPPORTUNITY
CANDLER, NC	192	NO	NO	YES
LAKE STATION, IN	230	RJR F.P./SAV BAT F.P./SAV	YES	YES
PORTER, IN	131	NO	NO	YES
HARBORCREEK, PA	127	LOR F.P.	YES	YES
BALTIMORE, MD	121	N/A MANAGER WILL NOT ALLOW	NO	YES
GREENLAND, NH				

TRAVELPORT OPPORTUNITIES?

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R.J. REYNOLDS TOBACCO CO.

TRAVELPORT RECOMMENDATIONS

In 100+ CPW locations:

⇒ Display Exposure

⇒ Execute Promotions

⇒ Advertising

In 0-99 CPW locations:

⇒ Display Exposure

⇒ Execute Promotions

⇒ Advertising